

Paper Specific Markscheme

In addition to the assessment criteria use the paper-specific markscheme below. Award up to the maximum marks as indicated.

1. (a) Define the following terms indicated in bold in the text: [2 marks]

(i) **maximum price (paragraph 5)**

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is a price above which the market is not allowed to go.

2 *Precise definition* 2

An explanation that a maximum price is imposed by an authority and is set below the equilibrium price. An appropriate diagram is enough.

(ii) **cross elasticity of demand (paragraph 6).** [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is the relationship between the demand for one good when there is a change in the price of another good.

2 *Precise definition* 2

The responsiveness of the demand for one good to a change in the price of another good. A correct formula is enough.

- (b) Using a supply and demand diagram, explain why there was an “excess supply of chicken in the market” (paragraph ④). [4 marks]

level

- | | | |
|---|--|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled demand and supply diagram, where demand has shifted to the left and there is now an excess of supply (or any other suitable diagram) or for providing an explanation of how demand for chicken has fallen because of the avian flu and that now, more will be supplied than demanded. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled demand and supply diagram, where demand has shifted to the left and there is now an excess of supply (or any other suitable diagram) and for providing an explanation of how demand for chicken has fallen because of the avian flu and that now, more will be supplied than demanded. | 3-4 |

Better candidates may refer to the imposed price or may use figures from the text and a perfectly inelastic supply curve set at 1.1 million chickens, but this is not necessary for full marks.

- (c) Using an appropriate diagram, explain the likely effect of importing higher priced baby chicks from Australia and the EU on the market for chickens. [4 marks]

level

- | | | |
|---|---|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled supply and demand diagram, with supply shifting to the left and so a higher price and lower quantity demanded and supplied (but any suitable diagram should be rewarded) or for explaining that an increase in the price of baby chicks is an increase in a raw material cost, which should lead to fewer chickens being supplied at a higher price. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled supply and demand diagram, with supply shifting to the left and so a higher price and lower quantity demanded and supplied (but any suitable diagram should be rewarded) and for explaining that an increase in the price of baby chicks is an increase in a raw material cost, which should lead to fewer chickens being supplied at a higher price. | 3-4 |

- (d) Using information from the text and your knowledge of economics, especially elasticity of demand, evaluate the economic situation facing the chicken farmers and consumers of chicken.

[8 marks]

There is a lot of information in the text, some of which may be included in the answer:

- chicken farmers may be vulnerable to demand and supply-side shocks
- the elasticity of demand for processed chicken may be calculated and is $10\%/20.00\% = 0.5$
- the elasticity of demand for live chickens may be calculated and is $10\%/20\% = 0.5$
- in both cases, the demand is inelastic
- this means that if producers wish to increase their revenue, then it would be better to raise their prices rather than lower them
- the farmers are acting as a cartel and so should be able to control supply and thus price
- there may be competition from imports, especially if price rises
- the reaction of the 20 % of the non-cartel suppliers may be important
- the imposition of the maximum price poses some interesting problems
- aggressive marketing may be necessary and this may be costly
- cross elasticity of demand and suppliers of substitutes may be a factor
- consumers benefit from lower prices
- consumers gain an increase in real income
- consumers' demand for beef and lamb may be affected
- any reasonable answer.

Examiners should be aware that candidates may take a different approach, which if appropriate should be rewarded.

Effective evaluation may be to:

- consider short run versus long run consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments

Level

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1-2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3-5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6-8